

A photograph of a line of diverse school children standing in a hallway. The children are wearing white polo shirts and dark pants. They are looking towards the camera with slight smiles. The background is a blurred hallway with a door and a window.

South Arbor Charter Academy

*Financial Statements, Required
Supplementary Information and
Additional Information for the
Year Ended June 30, 2007 and
Independent Auditors' Reports*

SOUTH ARBOR CHARTER ACADEMY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
South Arbor Charter Academy
Ypsilanti, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of South Arbor Charter Academy (the "Academy") as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Academy as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 to 5 and 14 and 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Academy's respective financial statements that collectively comprise the Academy's basic financial statements. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Academy's management. Such information has been subjected to the auditing procedures applied by

us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 7, 2007

SOUTH ARBOR CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2007

This section of the annual financial report for South Arbor Charter Academy ("the Academy") provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2007. It should be read in conjunction with the financial statements, which immediately follow this section.

Using this Annual Report—This annual report consists of a series of financial statements and notes to those statements. The statement of net assets and the statement of activities on pages 6 and 7 provide information about the activities of the Academy as a whole (Academy-wide financial statements). Fund financial statements on pages 8 and 9 provide information about the Academy's most significant funds.

Academy-wide Financial Statements—The Academy-wide financial statements include all assets and liabilities and results of operations using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all the Academy's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets as of June 30:

	2007	2006
Assets:		
Current assets	\$ 961,725	\$ 917,639
Capital assets, net of accumulated depreciation	<u>12,021</u>	<u>12,505</u>
Total assets	973,746	930,144
Liabilities—current	942,827	898,103
Net assets:		
Invested in capital assets	12,021	12,505
Unrestricted	<u>18,898</u>	<u>19,536</u>
Total net assets	<u>\$ 30,919</u>	<u>\$ 32,041</u>

The unrestricted net assets of governmental activities represent the accumulated results of life to date operations. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the statement of activities, which shows the change in net assets.

The table below provides a summary of the Academy's change in net assets for the years ended June 30:

	2007	2006
Revenues:		
State aid	\$ 4,849,571	\$ 4,584,250
Operating grants	356,023	231,999
Charges for meals	<u>50,942</u>	<u>48,888</u>
Total revenues	5,256,536	4,865,137
Expenses—		
Contracted service fee:		
Instruction	2,083,526	2,118,150
Support services	3,084,766	2,666,196
Food services	88,882	96,133
Depreciation (unallocated)	<u>484</u>	<u>484</u>
Total expenses	<u>5,257,658</u>	<u>4,880,963</u>
Change in net assets	<u>\$ (1,122)</u>	<u>\$ (15,826)</u>

As reported in the statement of activities, the cost of governmental activities was \$5,257,658. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants.

The Academy experienced a decrease in net assets of \$1,122 in 2007. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

A reconciliation of the change in net assets to the change in fund balance appears on page 9.

Fund Financial Statements—The fund level financial statements are reported on a modified accrual basis. Only those revenues that are “measurable” and “currently available” are reported. Liabilities are recognized when incurred.

The Academy's instruction and support services activities are reported in the General Fund. The School Service Fund represents food service activities. The Academy's combined fund balance was \$18,898 at June 30, 2007.

A reconciliation of the change in fund balance to the change in net assets appears on page 9.

General Fund Budgetary Highlights—Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

Budgeted revenues for the General Fund were increased \$375,108 from the original budget. Revenues were changed to reflect a change in state aid and to reflect secured grant allocations. Budgeted expenditures for the General Fund were increased \$382,575. This change was to reflect the change in anticipated funding. The variances between the final budget and actual amounts were insignificant.

Capital Assets—At June 30, 2007, the Academy had \$12,021 invested in capital assets from board discretionary funds, primarily equipment. Capital assets are substantially provided as a part of the management agreement with NHA.

General Economic Factors—The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2008.

Contacting the Academy’s Financial Management—The financial report is designed to provide users of the report with a general overview of the Academy’s finances and to demonstrate the Academy’s accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, Michigan 49512.

SOUTH ARBOR CHARTER ACADEMY

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS	Governmental Activities
CURRENT ASSETS:	
Cash	\$ 18,398
Due from governmental revenue sources	<u>943,327</u>
Total current assets	961,725
NON-CURRENT ASSETS:	
Capital assets	14,522
Less accumulated depreciation	<u>(2,501)</u>
Total capital assets, net of accumulated depreciation	<u>12,021</u>
TOTAL	<u><u>\$ 973,746</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Deferred revenue	\$ 32,382
Due to National Heritage Academies, Inc.	<u>910,445</u>
Total liabilities	942,827
NET ASSETS:	
Invested in capital assets	12,021
Unrestricted	<u>18,898</u>
Total net assets	<u>30,919</u>
TOTAL	<u><u>\$ 973,746</u></u>

See notes to financial statements.

SOUTH ARBOR CHARTER ACADEMY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2007

		Program Revenues		Governmental
		Charges for	Operating	Activities
	Expenses	Services	Grants	Net (Expense)
				Revenue and
				Changes in
				Net Assets
FUNCTIONS/PROGRAMS—				
Governmental activities:				
Contracted service fee:				
Instruction	\$ 2,083,526	\$ -	\$ 318,604	\$ (1,764,922)
Support services	3,084,766			(3,084,766)
Food services	88,882	50,942	37,419	(521)
Depreciation (unallocated)	<u>484</u>	<u></u>	<u></u>	<u>(484)</u>
Total governmental activities	<u>\$ 5,257,658</u>	<u>\$ 50,942</u>	<u>\$ 356,023</u>	(4,850,693)
General purpose revenues—				
State aid unrestricted				<u>4,849,571</u>
Change in net assets				(1,122)
Net assets:				
Beginning of year				<u>32,041</u>
End of year				<u>\$ 30,919</u>

See notes to financial statements.

SOUTH ARBOR CHARTER ACADEMY

BALANCE SHEET— GOVERNMENTAL FUNDS JUNE 30, 2007

	General Fund	School Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 18,398	\$ -	\$ 18,398
Due from governmental revenue sources	<u>937,260</u>	<u>6,067</u>	<u>943,327</u>
TOTAL	<u>\$ 955,658</u>	<u>\$ 6,067</u>	<u>\$ 961,725</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Deferred revenue	\$ 86,337	\$	\$ 86,337
Due to National Heritage Academies, Inc.	<u>850,423</u>	<u>6,067</u>	<u>856,490</u>
Total liabilities	936,760	6,067	942,827
FUND BALANCE—Unreserved and undesignated	<u>18,898</u>	<u></u>	<u>18,898</u>
TOTAL	<u>\$ 955,658</u>	<u>\$ 6,067</u>	<u>\$ 961,725</u>
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets			
Total governmental fund balance			\$ 18,898
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
Capital assets cost		\$ 14,522	
Accumulated depreciation		<u>(2,501)</u>	12,021
Due from governmental revenue sources not available to pay current period expenditures therefore deferred in the funds			53,955
Due to National Heritage Academies, Inc. not due and payable in the current period and not reported in the funds			<u>(53,955)</u>
Net assets of governmental activities			<u>\$ 30,919</u>

See notes to financial statements.

SOUTH ARBOR CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES— GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2007

	General Fund	School Service Fund	Total
REVENUES:			
State aid	\$ 4,849,519	\$ -	\$ 4,849,519
Other state sources	86,292	1,285	87,577
Federal sources	50,708	36,134	86,842
Local sources	<u>129,361</u>	<u>50,942</u>	<u>180,303</u>
Total revenues	5,115,880	88,361	5,204,241
EXPENDITURES—			
Contracted service fee:			
Instruction	2,083,526		2,083,526
Support services	3,032,471		3,032,471
Food services	<u></u>	<u>88,882</u>	<u>88,882</u>
Total expenditures	<u>5,115,997</u>	<u>88,882</u>	<u>5,204,879</u>
REVENUES UNDER EXPENDITURES	(117)	(521)	(638)
OTHER FINANCING (USES) SOURCES—			
Operating transfers (out) in	<u>(521)</u>	<u>521</u>	<u></u>
NET CHANGE IN FUND BALANCE	(638)		(638)
FUND BALANCE—Beginning of year	<u>19,536</u>	<u></u>	<u>19,536</u>
FUND BALANCE—End of year	<u>\$ 18,898</u>	<u>\$</u>	<u>\$ 18,898</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Net change in fund balance—total governmental funds	\$ (638)
Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their estimated useful lives as depreciation—depreciation expense	(484)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	53,955
Revenue reported in the governmental funds as available and measurable—reported in the statement of activities in prior years	(1,660)
Contracted service fee recognized consistent with the revenue policy	<u>(52,295)</u>
Change in net assets of governmental activities	<u>\$ (1,122)</u>

See notes to financial statements.

SOUTH ARBOR CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

1. NATURE OF OPERATIONS

South Arbor Charter Academy (the “Academy”) is a Michigan Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under a charter approved by Central Michigan University, which is responsible for oversight of the Academy’s operations. The charter expires June 30, 2011 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The Academy provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(A)(ii).

The Academy’s primary source of revenue is provided by the State of Michigan and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from October 2006 through August 2007.

The Board of Directors of the Academy has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement is for a term of five years and may be terminated or renegotiated by either party by giving at least 90 days written notice.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board of Directors for discretionary expenditures on an annual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Academy-wide and Fund Financial Statements—The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-wide Statements—The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Fund Based Statements—Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue.

Fund Classification—The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

General Fund—General fund is used to account for the general education requirements of the Academy. Its revenues are derived primarily from the State of Michigan.

School Service Fund—School service fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

Capital Assets—Capital assets, which include land improvements, are reported in the applicable governmental column in the Academy-wide financial statements at historical cost. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Land improvements are depreciated using the straight-line method over useful lives of 30 years.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

Cash—Cash as of June 30, 2007, represents bank deposits which are covered by federal depository insurance. Accordingly, there are no investments which are required to be categorized according to risk.

Deferred Revenue—Deferred revenue as of June 30, 2007, consists of funds received for services which have not been performed or are not available and measurable.

Fund Equity—Fund balances may be reserved or unreserved. The term reserved is used to earmark a portion of fund balance as either legally segregated for a specific future use or to indicate that certain assets do not represent spendable resources available for general educational purposes. The Academy had no reserved fund balances at June 30, 2007.

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. The budgets can be amended by the Board of Directors of the Academy as considered necessary. The budgets were amended to increase budgeted revenues and expenditures for the general fund by \$375,108 and \$382,575, respectively and to increase budgeted revenues and expenditures for the school service fund by \$30,294 and \$22,827, respectively.

3. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2007, and claims did not exceed coverage in the past three fiscal years.

4. CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

Beginning balance	\$ 14,522
Additions	-
Disposals and adjustments	-
Ending balance	<u>\$ 14,522</u>

5. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

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REQUIRED SUPPLEMENTARY INFORMATION

SOUTH ARBOR CHARTER ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual
REVENUES:			
State aid	\$ 4,542,865	\$ 4,854,800	\$ 4,849,519
Other state sources	276,127	88,800	86,292
Federal sources	24,800	129,500	50,708
Local sources		145,800	129,361
Total revenues	4,843,792	5,218,900	5,115,880
EXPENDITURES—			
Contracted service fee:			
Instruction:			
Basic instruction	1,974,526	1,966,700	1,906,304
Added needs	39,155	81,000	52,972
Special education	252,071	133,900	124,250
Support services:			
Pupil services		102,700	101,352
Instructional staff services	149,051	257,300	234,095
Board of education	54,250	45,200	11,123
Executive administration	359,634	418,700	464,619
State and federal relations	43,870	64,900	79,938
Office of the principal	285,733	305,100	292,097
Other school administration	133,374	201,600	219,592
Business support services	66,805	87,400	93,776
Operations and maintenance	1,349,644	1,385,200	1,358,932
Central services	109,912	150,900	176,947
Total expenditures	4,818,025	5,200,600	5,115,997
REVENUES OVER (UNDER) EXPENDITURES	25,767	18,300	(117)
OTHER FINANCING USES—			
Operating transfers out	(25,767)	(18,300)	(521)
NET CHANGE IN FUND BALANCE			(638)
FUND BALANCE—Beginning of year	19,536	19,536	19,536
FUND BALANCE—End of year	\$ 19,536	\$ 19,536	\$ 18,898

SOUTH ARBOR CHARTER ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

SCHOOL SERVICE FUND

YEAR ENDED JUNE 30, 2007

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Other state sources	\$ -	\$ -	\$ 1,285
Federal sources	41,234	35,300	36,134
Local sources	<u>17,672</u>	<u>53,900</u>	<u>50,942</u>
Total revenues	58,906	89,200	88,361
EXPENDITURES—			
Contracted service fee—food services	<u>84,673</u>	<u>107,500</u>	<u>88,882</u>
REVENUE UNDER EXPENDITURES	(25,767)	(18,300)	(521)
OTHER FINANCING SOURCES—			
Operating transfers in	<u>25,767</u>	<u>18,300</u>	<u>521</u>
NET CHANGE IN FUND BALANCE			
FUND BALANCE—Beginning of year	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE—End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ADDITIONAL INFORMATION

SOUTH ARBOR CHARTER ACADEMY

ADDITIONAL INFORMATION STATEMENT OF REVENUES—GENERAL FUND YEAR ENDED JUNE 30, 2007

State aid	\$ 4,849,519
Other state sources:	
Special education	49,428
At-risk	<u>36,864</u>
Total	86,292
Federal sources—grants	50,708
Local sources:	
Special education	122,228
Interest income	268
Miscellaneous	<u>6,865</u>
Total	<u>129,361</u>
TOTAL	<u><u>\$ 5,115,880</u></u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Directors
South Arbor Charter Academy
Ypsilanti, Michigan

We have audited the financial statements of South Arbor Charter Academy (the "Academy") as of and for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Central Michigan University, and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 7, 2007



To: All Financial Audit Recipients
From: Leslie Cummings, Director of Audits & Financial Reporting
Date: September 26, 2007
Re: Management Letter – prepared by Auditors

Please note that the Academy's auditors, Deloitte & Touche LLP, have not issued a separate management letter in connection with their audit of the Academy's financial statements for the year ended June 30, 2007.

Please feel free to call me at 616-954-3532, if you have any questions.